House Study Bill 502 - Introduced

HOUSE FILE _____

BY (PROPOSED COMMITTEE

ON JUDICIARY BILL BY

CHAIRPERSON BALTIMORE)

A BILL FOR

- 1 An Act relating to the exclusion from the computation of net
- 2 income for the individual income tax of net capital gains
- from the sale of a business and including retroactive
- 4 applicability provisions.
- 5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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- 1 Section 1. Section 422.7, subsection 21, paragraph a, Code 2 2014, is amended to read as follows:
- 3 a. (1) (a) Net capital gain from the sale of a business or
- 4 from the sale of real property used in a business, in which the
- 5 taxpayer materially participated for a minimum of ten years,
- 6 as defined in section 469(h) of the Internal Revenue Code, and
- 7 which has been held for a minimum of ten years, or from the
- 8 sale of a business, as defined in section 423.1, in which the
- 9 taxpayer materially participated for ten years, as defined in
- 10 section 469(h) of the Internal Revenue Code, and which has been
- 11 held for a minimum of ten years. The sale of a business means
- 12 the sale of all or substantially all of the tangible personal
- 13 property or service of the business.
- 14 (b) However, where the business is sold If the sale of the
- 15 business in subparagraph division (a) is made to individuals
- 16 who are all lineal descendants of the taxpayer, the taxpayer
- 17 does not have to have materially participated in the business
- 18 in order for the net capital gain from the sale to be excluded
- 19 from taxation.
- 20 (2) However, in In lieu of the net capital gain deduction
- 21 in this paragraph and paragraphs "b", "c", and "d", where the
- 22 business is sold if the sale of the business in subparagraph
- 23 (1) is made to individuals who are all lineal descendants of
- 24 the taxpayer, the amount of capital gain from each capital
- 25 asset may be subtracted in determining net income.
- 26 (3) For purposes of this paragraph, unless the context
- 27 otherwise requires:
- 28 (a) "Business" means the same as defined in section 423.1.
- 29 (b) "lineal "Lineal descendant" means children of the
- 30 taxpayer, including legally adopted children and biological
- 31 children, stepchildren, grandchildren, great-grandchildren, and
- 32 any other lineal descendants of the taxpayer.
- 33 (c) "Materially participated" means the same as defined in
- 34 section 469(h) of the Internal Revenue Code.
- 35 (d) "Sale of a business" means the sale of all or

H.F. ____

- 1 substantially all of the tangible personal property or service
- 2 of the business, or the sale of all or substantially all of the
- 3 taxpayer's stock or equity interest in the business, whether
- 4 the business is held as a sole proprietorship, corporation,
- 5 partnership, joint venture, trust, limited liability company,
- 6 or another business entity.
- 7 Sec. 2. RETROACTIVE APPLICABILITY. This Act applies
- 8 retroactively to January 1, 2014, for tax years beginning on
- 9 or after that date.
- 10 EXPLANATION
- The inclusion of this explanation does not constitute agreement with
- 12 the explanation's substance by the members of the general assembly.
- 13 This bill relates to the taxation of net capital gains from
- 14 the sale of a business.
- 15 This state provides an exclusion from the computation of net
- 16 income for the individual income tax of any net capital gains
- 17 realized from the sale of a business if the taxpayer held the
- 18 business for at least 10 years and materially participated in
- 19 the business for at least 10 years.
- 20 Under current law, "sale of a business" is defined as the
- 21 sale of all or substantially all of the tangible personal
- 22 property or service of the business. The bill modifies the
- 23 definition to include the sale of all or substantially all of a
- 24 taxpayer's stock or equity interest in the business, whether
- 25 the business is held as a sole proprietorship, corporation,
- 26 partnership, joint venture, trust, limited liability company,
- 27 or another business entity.
- 28 The bill applies retroactively to January 1, 2014, for tax
- 29 years beginning on or after that date.